
Joint Release

**Federal Deposit Insurance Corporation
Federal Reserve Board of Governors
Office of the Comptroller of the Currency**

For immediate Release

November 5, 2015

Shared National Credits Review Notes High Credit Risk and Weaknesses Related to Leveraged Lending and Oil and Gas

Credit risk in the Shared National Credit (SNC) portfolio remained at a high level, according to an annual review of large shared credits released today by federal banking agencies.

The SNC review has been conducted by the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) since 1977 to assess risk in the largest and most complex credits shared by multiple financial institutions.

Leveraged lending, which accounts for approximately one quarter of the SNC portfolio, remained a focus of the agencies. This year's review found that banks are making progress in aligning their underwriting practices with the leveraged lending guidance issued by regulators in 2013. However, the review highlighted continuing gaps between industry practices and the expectations for safe and sound banking. Leveraged transactions originated within the past year continued to exhibit structures that were cited as weak by examiners. The persistent structural deficiencies found in loan underwriting by the agencies warrant continued attention.

The review also noted an increase in weakness among credits related to oil and gas exploration, production, and energy services following the decline in energy prices since mid-2014. Aggressive acquisition and exploration strategies from 2010 through 2014 led to increases in leverage, making many borrowers more susceptible to a protracted decline in commodity prices.

Oil and gas commitments to the exploration and production sector and the services sector totaled \$276.5 billion, or 7.1 percent, of the SNC portfolio. Classified commitments—a credit rated as substandard, doubtful, or loss—among oil and gas borrowers totaled \$34.2 billion, or 15.0 percent, of total classified commitments, compared with \$6.9 billion, or 3.6 percent, in 2014.

Overall, total SNC commitments increased \$518.3 billion to \$3.9 trillion, a 15.3 percent gain from 2014. Classified commitments as well as credits rated special mention—which exhibit potential weakness and could result in further deterioration if uncorrected—remained elevated at 9.5 percent of total commitments. Classified and special mention commitments increased \$31.9 billion from 2014, or 9.4 percent, from \$340.6 billion to \$372.6 billion. Substandard dollar volume increased 18.5 percent from

2014, primarily because of deterioration in oil and gas commitments, and represented 5.8 percent of the SNC portfolio.

Because of the growing volume of special mention and classified commitments, as well as the significant growth in the leveraged lending portfolio, the agencies will continue to monitor in particular the associated underwriting and risk-management processes in the leveraged lending and oil and gas sectors.

The distribution of credits across entity types—U.S. bank organizations, foreign bank organizations, and nonbanks—remained relatively unchanged. U.S. bank organizations owned 43.3 percent of total SNC loan commitments, foreign banks owned 33.7 percent, and nonbanks owned 23.0 percent. Nonbanks continued to own a larger share of classified (67.0 percent) and nonaccrual (72.9 percent) commitments than their total share of the SNC portfolio.

A SNC includes any loan or formal loan commitment, and asset such as real estate, stocks, notes, bonds, and debentures taken as debts previously contracted, extended to borrowers by a federally supervised institution, its subsidiaries, and affiliates that aggregates to \$20 million or more and is shared by three or more unaffiliated supervised institutions.

This year's review examined \$1.04 trillion in credit commitments covering 26.5 percent of the \$3.9 trillion SNC portfolio. The sample, as in past reviews, was weighted toward noninvestment grade, special mention, and classified credits. Results are based on analyses prepared in the second quarter of 2015, using data provided by the institutions as of December 31, 2014, and March 31, 2015.

Attachments:

- [SNC Review - PDF \(PDF Help\)](#)

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FDIC: PR-89-2015